



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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WENDY L. WATANABE
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February 3, 2014

TO: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe
Auditor-Controller

A handwritten signature in blue ink, reading "Wendy L. Watanabe", is written over the printed name and title.

SUBJECT: **DEPARTMENT OF PARKS AND RECREATION REVENUE
AGREEMENT FINANCIAL AND COMPLIANCE AUDITS - FISCAL
YEARS 2007-08 THROUGH 2011-12**

At the request of the Department of Parks and Recreation (DPR), we contracted with an independent Certified Public Accounting firm, Simpson and Simpson, CPAs (Simpson) to conduct financial and compliance audits of nine DPR recreational facility agreements. The purpose of the audits was to determine whether the contractors properly reported their gross receipts, and paid the correct rent to the County. The County received approximately \$24.8 million from the nine contractors from Fiscal Years (FY) 2007-08 through 2011-12. The specific audit periods covered for each of the nine contractors is reflected on the Attachment.

Review Summary

The audits disclosed that three of the nine contractors underpaid the County a total of \$362,218, which includes \$41,277 in interest on the underpaid rent; and one contractor overpaid the County a total of \$807.

Simpson did not express an opinion on the schedule of gross receipts for two contractors (La Mirada Tennis and Disc Golf Center, and Cerritos Tennis Center) due to material internal control weaknesses noted for both contractors. Examples of the material weaknesses noted by Simpson included the contractors not using cash registers to record sales transactions, and not maintaining regular books of accounting such as general ledgers and journals.

Simpson also reported that four of the nine contractors had deficiencies in their internal controls that, if not corrected, will impede the contractors from preventing, or detecting and correcting, misstatements in their schedules of gross receipts on a timely basis. These weaknesses included:

- Noncompliance with the concession agreement (e.g., the contractor did not maintain a separate bank account).
- Cash receipts not deposited timely and intact.
- Untimely preparation of bank reconciliations.
- Lack of reconciliations between accounting records and cash register tapes.

Review of Reports

Simpson met with the contractors and DPR to discuss the results of each audit, and all nine contractors agreed with the findings. DPR indicated that they have credited \$807 to the contractor that overpaid the County, collected \$279,455 in underpayments, and are working to collect the remaining \$82,763.

DPR also informed us that they will request the affected contractors to submit corrective action plans to address the control weaknesses identified in the audits, and will closely monitor the contractors to ensure they report their gross receipts and pay their rent as required. Due to the significant issues identified by Simpson in this, and previous audits of DPR contractors, we plan to initiate an audit within the next 90 days to evaluate DPR's contract monitoring efforts.

Attached is a summary of the agreements that were audited, and the amounts under/over paid to the County for each agreement. If you have any questions, or would like to review any of the individual reports, please call me or your staff may contact Robert Smythe at (213) 253-0101.

WLW:AB:RS:MP

Attachment

c: William T Fujioka, Chief Executive Officer
Russ Guiney, Director, Department of Parks and Recreation
Public Information Office
Audit Committee

**DEPARTMENT OF PARKS AND RECREATION REVENUE AGREEMENT FINANCIAL
AND COMPLIANCE AUDITS - FISCAL YEARS 2007-08 THROUGH 2011-12**

	Facility/Contractor	Agreement Type	Audit Period	Gross Revenue Paid to the County	Underpaid Rent and Interest	Overpaid Rent	
1	Whittier Narrows Golf Course	Lease	1/1/08 to 12/31/11	\$6,007,590	\$362,057		(1)
2	La Mirada Tennis and Disc Golf Center	Concession	6/1/09 to 12/31/11	79,440	131		(2),(3)
3	iTennis, Inc., Whittier Narrows Recreation Area	Concession	9/1/09 to 12/31/11	58,981	30		(4)
4	Veterans Memorial County Park Disc Golf	Concession	6/1/09 to 12/31/11	52,038	0	(\$807)	(3),(5)
5	Mountain Meadows Golf Course	Lease	1/1/08 to 12/31/11	5,226,233	0		
6	Los Verdes Golf Course	Lease	1/1/08 to 12/31/11	7,466,429	0		
7	Lakewood Golf Course	Lease	1/1/08 to 12/31/11	5,762,634	0		
8	Cerritos Tennis Center	Concession	6/1/09 to 12/31/11	41,287	0		(3),(6)
9	Whittier Narrows Equestrian Center Whittier Narrows Recreation Area	Concession	1/1/09 to 12/31/11	81,029	0		(3)

TOTAL \$24,775,661 \$362,218 (\$807)

- (1) The underpayment was primarily due to the contractor's payment errors and unpaid golf course improvement fees. In addition, in accordance with the agreement, the contractor was assessed a two percent per month interest charge.
- (2) The contractor did not maintain adequate supporting documentation for reported gross sales and earned rent for the period June 1, 2009 through December 31, 2011. For example, the contractor did not use cash registers to record all sales transactions. Due to the significance of the deficiencies noted, the scope of Simpson's work was not sufficient to enable them to express an opinion on the contractor's schedule of gross receipts. However, of the gross receipts reviewed, Simpson noted the contractor incorrectly reported gross receipts for tennis instructions due to data entry errors.
- (3) Simpson identified deficiencies in the contractor's internal controls over reporting of gross receipts. For example, cash receipts were not deposited into the bank intact and in a timely manner, and annual profit and loss statements were not submitted to the County within 60 days of the close of the agreement year.
- (4) The underpayment was due to the Concessionaire underreporting gross revenue.
- (5) The overpayment was due to the Concessionaire over-reporting merchandise gross receipts and incorrectly calculating rent due for June 2009.

- (6) The contractor did not maintain adequate supporting documentation for reported gross sales and earned rent for the period June 1, 2009 through December 31, 2011. For example, the contractor did not use a cash register to record sales transactions. Due to the significance of the deficiencies, the scope of Simpson's work was not sufficient to enable them to express an opinion on the contractor's schedule of gross receipts.